

Thomas John Shopa, CPA, CFP, CVA

Charles H. Elter, CPA

Robert S. Smith, CPA

Ronald E. Derr, CPA

George G. Fournaris, CPA, CGFM

■

Donald S. Emenheiser, CPA, CFP, MBA

Edward T. Gallagher, CPA, CIA

Dana L. Ketterer, CPA

Clyde G. Hartman, CPA/ABV, CFE, CVA

Jean D. Lloyd, CPA

Scott G. Sipple, Jr., CPA

Alison L. Houck, CPA

W. Mark Cullen, CPA

Emilio I. Rana, Jr., CPA (PA)(CA)

Kelly S. Klepacki, CPA

Members of:

American Institute of CPA's

Private Companies Practice Section

Delaware Society of CPA's

Certified Public Accountants

270 Presidential Drive

Wilmington, DE 19807

(302) 656-5500

(302) 656-8024 Fax

37212 Rehoboth Avenue Ext.

Rehoboth Beach, DE 19971

(302) 227-4872

(302) 227-4873 Fax

www.mcbrideshopa.com

Ms. Michele Young
Franciscan Health Care Center – Brackenville
100 St. Claire Drive
Hockessin, DE 19707

RE: Audit of the Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities – Title XIX for June 30, 2006

Dear Ms. Young,

We have audited the Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities – Title XIX, pages 2 through 6 (the Cost Report) and the Nursing Wage Survey (the Survey), for the Franciscan Health Care Center – Brackenville (the Facility) for the year ended June 30, 2006, and issued our report thereon dated November 17, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

There were no deficiencies in internal control over financial reporting that we consider to be material weaknesses, nor were there any instances of noncompliance or other matters that were required to be reported under *Government Auditing Standards*.

However, during our audit, we noted certain matters involving instances of immaterial noncompliance and nonreportable conditions or other matters involving internal control over reporting that came to our attention. The following summarizes our comments and suggestions regarding those matters. We previously reported on the Facility's internal control in our report dated November 17, 2008. This letter does not affect our report dated November 17, 2008 on the Facility's Cost Report and Survey.

CONDITION 06-01

- Condition: In its plant ledger, the Facility includes several assets which cost less than \$5,000, the allowable capitalization minimum for Medicare and Medicaid purposes. All assets in the plant ledger must be depreciated over their estimated useful lives, requiring several years before costs can be recovered through Medicare and Medicaid reimbursement. Further, the added volume of assets increases the recordkeeping burden of maintaining the plant ledger.
- Criteria: The allowable capitalization minimum for Medicare and Medicaid purposes is set as a guideline for the Facility's capitalization policy.
- Cause: The Facility has not followed the capitalization guidelines consistently.
- Effect: By capitalizing costs under \$5,000, the Facility is understating costs for which it could be reimbursed in the current year's cost report. In addition, by spreading the depreciation expense over several years, the following years' costs will be overstated.
- Suggestion: Management should consider increasing its capitalization floor to \$5,000 to allow increased reimbursement in the year of smaller asset purchases and reduce the future burden of maintaining its plant ledger.

CONDITION 06-02

- Condition: Two invoices out of seventeen selected for testing could not be located.
- Criteria: Proper internal control procedures suggest that appropriate backup be maintained and produced to substantiate testing.
- Cause: The cause was not determinable. The missing invoices were most likely misfiled.
- Effect: The inability to verify transactions could impact the Facility's ability to substantiate costs, leading to decreased reimbursement.
- Suggestion: The amounts were immaterial and appeared to be recorded properly, so no adjustment was proposed. However, we recommend that management maintain more consistent recordkeeping in order to provide backup.

We would be pleased to discuss these comments and suggestions in further detail at your convenience.

McBride, Shapiro & Co

Wilmington, Delaware
November 17, 2008